FIRST-TIME BUYERS GUIDE

www.wvhdf.com

West Virginia Housing Development Fund
NMLS #198038

800-933-8511

TABLE OF CONTENTS

INTRODUCTION

Buying a home has often been viewed as the American Dream. And while homeownership has its benefits, not everyone is suited or equipped to own a home.

So before you contact the Fund or any other lender, take a step back and consider if owning a home is right for you. Think about your financial situation, your ability to take care of and maintain your own property, and where you see yourself in the future. How does homeownership align with your hopes, dreams, and goals for your future?

If you've determined that homeownership is the next step for you, then you've come to the right place! This guide is designed with first-time buyers in mind to help you understand more of not just the mortgage loan process, but also how your income, spending, and credit history can affect your ability to afford homeownership now and in the future. This guide will help prepare you for that first call to your lender, understand the steps to getting a mortgage, correct some misconceptions and myths about buying a home, and ultimately make you a smarter consumer.

ARE YOU READY FOR HOMEOWNERSHIP?

Homeownership requires a heavy investment of both time and money. Before taking the plunge, you need to be sure you are ready for the commitment. Start by asking yourself these basic questions:

- Do I have the ability to make a regular monthly mortgage payment?
- Am I able to maintain a home, including regular maintenance and unexpected repairs?
- What are my or my family's needs? How might those needs change in the future?
- Will homeownership make me happy?

These are questions only you can answer, and how you respond may tell you if you are indeed ready to call the West Virginia Housing Development Fund.

PART 1: ASSESSING YOUR FINANCES

Now that you have decided you are ready to buy, it's time to take a deep dive into your finances, including your credit history, income, and expenses.
If you're not someone who normally tracks where your money is going, this step may sound scary. But don't be afraid! Knowledge is power, and knowing more about your finances helps both you and your lender determine how much house you can ultimately afford.

Information in this section will help you learn how to assess your finances and determine your eligibility for mortgage programs available through the West Virginia Housing Development Fund.

HOW'S YOUR CREDIT?

Credit reports and **credit scores** offer lenders a snapshot of your overall credit worthiness. Generally, the higher your score, the better you look to lenders. Many free online services can give you an idea of what your credit score may be, but your lender will provide you with your precise score once you begin the home loan process.

If your score is 620 or greater, generally, you've met the Fund's minimum credit score to qualify for our programs. If not, it's time to consider credit counseling. Certified counselors work with you to improve your credit score, but it won't happen overnight. You must try to pay back debt and limit taking on additional debt.

HELPFUL TIPS

You are entitled to a free copy of your credit report every year from each of the three credit bureaus. It is a good idea to review these reports often and report mistakes to the credit bureau.

CREDIT REPORTS & SCORES

So, what is your credit score and how is it determined? That's a great question.

The Consumer Financial Protection Bureau defines credit score as a prediction of your credit behavior, such as your ability to make consistent, on-time payments on your current loans. The three credit bureaus--Equifax, Experian, and TransUnion--look at factors such as the length of your credit history, history of on-time payments, the types of loans you have, and the amount of credit you have available and then use a mathematical formula called a scoring model to create your credit score. You can see the information these bureaus are using by requesting a copy of your credit report.

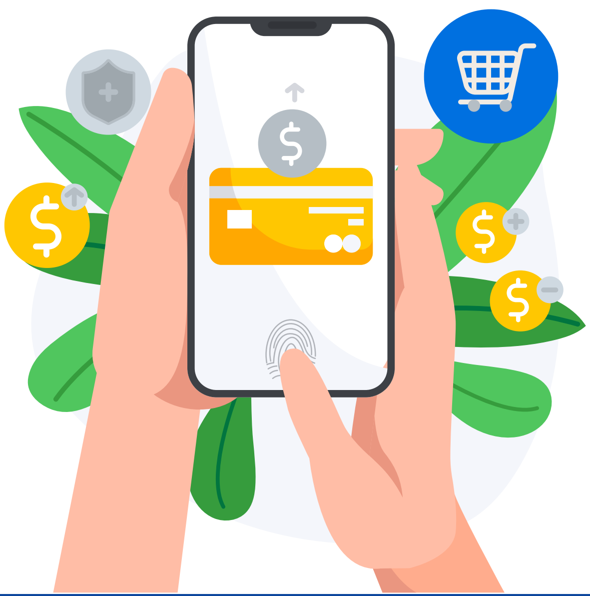
Each bureau will likely report different credit scores. That's normal. Your lender will take the median score and use that to determine your program eligibility and interest rate.

Generally, higher scores can help you lock in lower interest rates on your home loan, meaning you'll pay less in interest over the life of the loan.

INCOME VS. EXPENSES

Now that you understand your credit a little better, let's turn our attention to your income and expenses.

Income is all of the money you earn in a given month from your employer but can also include irregular income. Take a look at your paystubs or your employer-provided tax documents to get an idea of your income.



Now, your expenses. This includes both fixed, monthly payments such as rent, student loans, car payments, and other debts, as well as necessities such as food, gas for your car, clothes, and medical expenses.

Understanding how your income compares to your expenses is important. You want to avoid becoming "house poor"--spending too much of your income on your monthly mortgage. As a homeowner, you also need to have cash leftover each month in case of emergencies, plus it's always nice to have some fun money!

Use a free budgeting app to help you track income and expenses!

PART 2: THE MORTGAGE LOAN PROCESS

You understand your full financial situation, including your credit history and general score as well as your income and expenses. Now, it's time to talk to a lender who will look at your finances and tell you how much money you can borrow, what loan programs you qualify for, and how much interest you can expect to pay over the life of your loan.

Most first-time buyers in West Virginia qualify for our Homeownership Program. This program does have income and house price limits, but those limits are fairly generous. The Homeownership Program also usually offers our lowest interest rates. More information is available on our website.

When you call us, you will speak to an experienced loan originator who works out of our Charleston office. Your loan originator will help you through the rest of the mortgage process, which is outlined in this section of the Guide.

STEP ONE: PREQUALIFICATION OR PREAPPROVAL

Before you go house shopping and get your heart set on a home you cannot afford, you need to work with your loan originator to complete a prequalification or preapproval, an important step in your homebuying journey. This is when your lender looks at your finances and calculates how much money you can borrow toward the purchase of your new home and where your credit history, credit score, and income come into play.

Preapproval is different from **prequalification**, which is an initial review of your finances that is often less accurate than a preapproval. A prequalification is generally just a conversation between you and your loan originator. However, for a preapproval, your lender will require certain documents, like those listed to the right.

Preapproval Checklist

- ☐ Copies of identification
- ☐ Pay stubs
- ☐ Tax documents
- ☐ Bank statements
- ☐ Retirement/Investment account statements
- ☐ Statements from other interest-bearing debt, such as student loans

STEP TWO: START SHOPPING!

Now that you know how much house you can afford and how much you can reasonably borrow, it's time to start shopping!

As a first-time buyer, you may greatly benefit from using a real estate agent who understands the market where you're wanting to buy.

Create a list of must-haves, such as a certain number of bedrooms or other qualities you absolutely want in your new home. Also create a list of nice-to-haves--those things that are wishes, not essentials, and wouldn't factor as heavily into your decision-making process.

Your agent should take you to see houses in person so you can get a feel for the layout, test water faucets and light switches, and note any repairs that you may want to ask the seller to make if you decide to buy the home.

You may also want to drive around the neighborhood to determine if you would be comfortable living there.

STEP THREE: MAKE AN OFFER

Congratulations! You've found your dream home. Now it's time to put in an offer.

Work with your real estate agent to determine the amount of money you are comfortable paying for the home. This amount can be less than the price the sellers are asking, but know that offering too low may risk your chances of successfully purchasing the home.

Your offer may include contingencies, or things that need to happen in order for you to continue with the purchase. Common contingencies include a home inspection and appraisal, the latter of which helps the lender determine the value and condition of the home they are financing.

Your agent will write an offer to present to the seller's agent that details the price you are offering and any contingencies. The seller has three options: accept your offer, submit a counteroffer that opens the door for negotiations, or reject your offer.

If your offer is accepted, it is a good time to begin ordering inspections. Generally, your real estate agent can provide references. While inspections may or may not be required during the loan process, its' a good idea to do them anyway so you fully understand the condition of your investment.

HELPFUL TIPS

A licensed inspector will look at the home's structure as well as interior systems like plumbing and electrical. The inspector may suggest repairs that you can ask the seller to make before closing on the loan. If extensive repairs are required, you can choose to walk away from the purchase.

STEP FOUR: THE MORTGAGE APPLICATION & PROCESSING

The seller has accepted your offer so now it is time to begin the mortgage application.

Your lender will require some basic information from you and your co-borrower, if you have one. You submitted your financial documents during the preapproval stage, but your loan originator may ask for additional information depending on the type of loan you're applying for. Your lender will also run your credit report.

It is important to complete the application thoroughly and accurately. Not disclosing information on the application can jeopardize your loan.

When your application is complete, your lender may request additional documentation to verify or clarify certain items as your loan is processed. It is important to remit these requests quickly and completely. Your lender will usually initiate an appraisal of the property during this time to assess the home's value.

STEP FIVE: UNDERWRITING

Once you complete the mortgage application, it goes to an underwriter for review. The underwriter reviews the application and appraisal and verifies all the information you submitted before issuing a final decision on your application.

The underwriter is concerned with the "Three C's" of underwriting:

- **Capacity**: Does your income and current debt load allow you to make monthly mortgage payments?
- **Credit**: Does your credit history show that you make your payments on time?
- **Collateral**: Does the price of the home align with its value?

Avoid taking out new lines of credit while your loan is in the underwriting process. Any changes in your finances can interrupt the process and delay approval.

STEP SIX: LOAN APPROVAL & CLOSING

Once the underwriter is satisfied with your file, he or she will approve your application.

At this point, your lender will provide you a Closing Disclosure that details the terms of your loan, including your interest rate, monthly payment, and closing costs. It is important to review this document thoroughly so that you understand everything. Your loan originator is there to help. If you have questions, ask them!

The next step is the biggest: Closing on your loan and becoming a homeowner!

Your lender will tell you when and where you will meet with an attorney or title agency to close on your loan.

The Fund's Low Down Home Loan can cover all or part of your down payment and closing costs! Ask your loan originator for more information!

Prepare to sign a stack of paper, and don't forget your identification and cashier's check for down payment and closing costs if you are paying for those!

HOMEBUYING VOCABULARY

You may encounter unfamiliar terms during your homebuying journey. This glossary may help, but always ask the professionals involved in your transaction if you ever need clarification throughout the process.

- **Annual Percentage Rate (APR)**: A calculation meant to show the true cost of borrowing money over a long period of time.
- **Appraisal:** A process and report that determines the value of your home.
- **Cash Gift**: Money from a close family member to go toward your down payment that does not need to be repaid.
- **Cleared-to-Close:** The status of a mortgage application after the lender issues final approval.
- **Closing:** The last step, where money and keys are exchanged between buyer and seller.
- **Closing Costs:** The fees incurred as part of the loan process.
- **Commission:** The percentage of the home's value the real estate agent earns from the sale.
- **Conventional Mortgage:** A mortgage that conforms to the guidelines established by Freddie Mac and Fannie Mae.
- **Counteroffer:** A rejection of the initial offer that includes conditional adjustments for accepting an offer.
- **Debt-to-Income Ratio:** The ratio of monthly debt payments to monthly income, expressed as a percentage.
- **Deed:** A legal document that indicates ownership of the home.
- **Earnest Money:** A deposit to the seller that indicates the buyer's intent to purchase.

HOMEBUYING VOCABULARY

- **Escrow**: A type of account that holds funds, such as earnest money deposits. This can also refer to paying a prorated portion of your real estate taxes and homeowners insurance as part of your monthly mortgage.
- **Equity:** The value of a home determined by its market value and remaining charges against it. Equity increases as you make your mortgage payments.
- **FHA Mortgage:** A loan insured by the Federal Housing Administration that allows for lower down payments and have flexible credit guidelines.
- **FICO Score:** Also known as your credit score, used to determine interest rates.
- **Fixed-Rate Mortgage:** A loan for which the interest rate does not change. The Fund only offers fixed-rate mortgages.
- **Foreclosure:** When a lender claims ownership of a home to sell to make up for unpaid debts after a borrower misses a certain number of payments.
- **Homeowners Insurance:** Insurance that pays for damage to a home.
- **Interest Rate:** The rate at which interest is charged on a loan.
- **List Price:** The price at which a home is listed for sale.

HOMEBUYING VOCABULARY

- **Loan Estimate:** A document breaking down the terms of your loan, including your costs and fees.
- **Loan Term:** The length of time over which the loan is repaid.
- **Mortgage Rate Lock:** A contract where the lender must honor a specific rate for a specified number of days. This guarantees your rate won't change while you finalize agreements before closing.
- **Origination Fee:** Paid to the lender for processing the loan application.
- **PITI:** Principal, Interest, Taxes, and Insurance--the components of a mortgage payment.
- **Private Mortgage Insurance (PMI):** An insurance policy that protects mortgage lenders against loss on low- or no-downpayment loans.
- **Real Estate Taxes:** Payments due at least annually to the local government. Major home improvements may increase your property value and your property taxes.
- **Refinance:** To replace your existing mortgage loan with a new one, usually to save money.
- **Seller Concessions:** When the seller agrees to pay all or part of a buyer's closing costs.
- **Title:** Refers to a property owner's legal rights.

HOMEBUYING VOCABULARY

- **USDA Mortgage:** Guaranteed by the U.S. Department of Agriculture, available in rural areas and less-dense suburban areas.
- **Utilities:** Services such as water, electric, gas, and electricity. While your rent payments may have covered these costs, mortgages do not.
- **VA Mortgage:** Guaranteed by the Department of Veterans Affairs, generally available with 100 percent financing to U.S. military members with no PMI, down payment, or credit score requirements.

HELPFUL TIPS

The internet is a great tool to find more information about the home buying process. CFPB, Freddie Mac, and Fannie Mae are just a few great resources!

HOMEBUYING MYTHS: BUSTED!

MYTH Lenders require a 20% down payment.

FACT Some mortgage programs require as little as 0%. Ask us how we can help!

MYTH Renting is cheaper than owning.

FACT This depends on your finances and goals, but homeownership is a proven way to build long-term wealth.

MYTH I need to be debt free before I buy a house.

FACT If you keep your debt in line with your income, debt by itself won't disqualify you from getting a home loan.

MYTH Once the purchase offer is accepted, there is no backing out.

FACT Your offer will likely include contingencies that allow you to back out of the deal if the seller does not meet specified requirements.

MYTH After the loan closes, it's often confusing as to where I will make payments or who to contact if I have questions.

FACT If your loan is a Fund product, you will always make your payments to our main headquarters in Charleston, West Virginia, and our Servicing department is happy to help with any questions!

HOMEOWNERSHIP THROUGH WVHDF

Geared toward first-time buyers, generally offering our lowest interest rates.

Geared toward moderate-income buyers who have outgrown their current home or simply want a change of scenery.

Offered in conjunction with the Homeownership Program to reduce the amount borrowers pay out of pocket.

Call 800-933-8511 to learn more!